

MEDIA RELEASE

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Return vs. Risk for Core Property Types Rises Over Pre-Recession Levels

CHICAGO – Respondents to Real Estate Research Corporation’s (RERC’s) institutional investment survey gave the office, industrial, retail, and apartment sectors their highest return versus risk ratings since before the recession began, according to results published in the new *RERC Real Estate Report*. In addition, for the first time since the recession began, return expectations outweighed perceived risk for each of the core property types.

According to RERC’s risk versus returns ratings, each of the major property types earned a rating of 5.1 or higher (on a scale of 1 to 10, with 10 being high), indicating that expected returns for the various property types were higher than the amount of risk associated with the investment. At 6.6, the apartment sector received the highest risk versus return rating, followed by the industrial sector at 6.0. The retail sector received a rating of 5.5, and the office sector was rated at 5.1.

Ken Riggs, president and CEO of RERC, notes that this is a significant indicator for investors who have been disappointed by scant returns on bonds and cash and would like to avoid the volatility of the stock market. “The upward trend of the return versus risk rating shows that investor confidence in commercial real estate as an asset class continues to increase, and with the ratings for all the property types now above the midpoint of the scale, return expectations outweigh perceived risk. This represents the kind of assurance that risk-averse

investors seeking reasonable income returns are looking for as they consider investing in commercial real estate.”

Riggs noted that this view is substantiated by returns associated with the NCRIF Property Index, with institutional properties showing a 1-year trailing capital return (value change) of 9.0 percent in first quarter 2011, in comparison to a 1-year trailing capital return of -15.5 percent this time a year ago.

“And besides earning reasonable returns, commercial real estate is more transparent than other investments—investors can actually see who is leasing space and paying rent, or where their income is coming from,” he continued.

RERC’s expected rental growth also increased for each of the major property types during first quarter 2011, with institutional property rent increases ranging from an average of 1.9 percent for suburban office properties to an average of 3.5 percent for apartment properties over the previous quarter’s growth expectations, as published in the *RERC Real Estate Report*.

“The prices paid for institutional properties in the top markets during the past few quarters boggle the mind, especially in these uncertain times,” Riggs continued, “but we are starting to see demand increase and competitive pricing for quality properties in a few of the secondary and tertiary markets now as well. I am afraid it will be some time, however, before we see average properties gain much pricing power in average markets, given the distress they are still working through and the slack in employment and consumer spending.”

The spring 2011 issue of the *RERC Real Estate Report*, “*Getting Down to Brass Tacks*,” is available for purchase on the web at www.erc.com or by calling 319-352-1500.

Kenneth P. Riggs, Jr., CFA, CRE, FRICS, MAI, CCIM, serves as president and CEO of RERC. Founded in 1931, RERC is recognized throughout the industry as one of the nation's leading independent firms dedicated to commercial real estate investment research, valuation management, consulting, independent fiduciary services, and management information systems. RERC has published the *RERC Real Estate Report* for more than 30 years, offering independent investment criteria for 10 property types in the institutional and regional markets, as well as for 48 major metropolitan markets.